

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION
OF
PROVIDENT COMPANY
FARGO, NORTH DAKOTA**

**AS OF
DECEMBER 31, 1995**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby
certify that I have compared the annexed copy of the Report of Examination of the

ProviDent Company

Fargo, North Dakota

as of December 31, 1995, with the original on file in this Department and that the same
is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official
seal at my office in the City of
Bismarck, this _____ day of
_____, 1996.

Glenn Pomeroy
Commissioner of Insurance

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE OF STATUTORY EXAMINATION	1
HISTORY	2
General	2
Capital Stock	2
Dividends to Stockholders	3
Growth of the Company	3
MANAGEMENT AND CONTROL	3
Directors	3
Officers	4
Committees	4
Corporate Records	4
Member's Meetings	5
Director's Meetings	5
AFFILIATES	5
FIDELITY BOND AND OTHER INSURANCE	5
INSURANCE PRODUCTS AND RELATED PRACTICES	6
Provider and Subscriber Contracts	6
Territory and Agency System	6
Advertising and Sales Material	6
Subscriber Complaints	6
Quality Assessment and Utilization Review	7
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS	8
COMMENTS TO THE FINANCIAL STATEMENTS	12
ASSETS	12
Cash and Cash Equivalents	12
Premiums Receivable	13
Notes Receivable	13
Bonds	13
Computer Equipment	14
LIABILITIES	14
Accounts Payable	14

Unearned Premium Reserve	15
Premium Taxes Payable	15
Income Taxes Payable	16
Capital Stock and Contributed Capital	16
Net Worth	17
CONCLUSION	17
COMMENTS AND RECOMMENDATIONS	19
SUBSEQUENT EVENTS	20

June 26, 1996
Fargo, North Dakota

Honorable Glenn Pomeroy
Commissioner of Insurance
State of North Dakota
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Sir:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code, an examination was made of the condition and affairs of the

ProviDent Company

Fargo, North Dakota

as of December 31, 1995.

INTRODUCTION

ProviDent Company, Fargo, North Dakota, hereinafter referred to as the "Company", was last examined as of January 5, 1983, by representatives of the State of North Dakota.

The previous examination was the qualifying examination of the Company and was conducted by an examiner of the North Dakota Insurance Department to establish that the Company had complied with statutory requirements applicable to the proposed business and was ready to commence business.

SCOPE OF STATUTORY EXAMINATION

This statutory examination covers the period January 1, 1991, through December 31, 1995, including any material transactions and events occurring subsequent to the examination date and noted during the course of this statutory examination.

This examination was made in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners with due regard to the requirements of the insurance laws, rules, and regulations of the State of North Dakota.

Examination procedures included a verification and evaluation of assets, a determination of liabilities, review of corporate records, and review of other records relating to Company operational practices.

HISTORY

General

The Company was incorporated on July 20, 1982, as a nonprofit corporation, subject to N.D.C.C. Chapter 26.1-17. The Company was organized for the purpose of conducting a prepaid dental health delivery system. The Company commenced business on January 1, 1983, as “Denticare of North Dakota Inc.,” with its home office and principal place of business at Bismarck, North Dakota.

The 1993 Legislative Assembly enacted N.D.C.C. Chapter 26.1-17.1 which provides for the regulation of prepaid limited health service organizations. N.D.C.C. § 26.1-17.1-06 allows the Commissioner to issue a new Certificate of Authority under this chapter to certain existing regulated entities structured pursuant to other statutory provisions. Pursuant to the provisions of N.D.C.C. § 26.1-17.1-06, the Company was granted a Certificate of Authority to operate under the new law after satisfying the requirements mandated for existing entities. In a reorganizational meeting on October 5, 1993, the Board approved Articles of Incorporation and Bylaws, elected directors and officers, approved the issuance of stock, and conducted other business in keeping with the restructuring of the corporation.

In March 1995, the Company relocated the home office to Fargo, North Dakota. On August 15, 1995, the Articles of Incorporation were amended changing the Company’s name to the “ProviDent Company”.

The Company’s term of existence is on a perpetual basis. Pursuant to N.D.C.C. § 26.1-17.1-06(2), the Company is required to maintain capital and surplus of \$25,000 which reflects its capitalization requirement under the Company’s original Certificate of Authority.

Capital Stock

As provided by the Articles of Incorporation, the Company has authorized common stock of 500,000 shares with a par value of \$1 per share. On October 5, 1993, the Company issued 260,000 shares to Gorman King, Sr. The Company received no monetary consideration for this stock. On January 1, 1995, Gorman King, Jr., purchased 221,000 shares from Gorman King, Sr., for \$219,256 resulting in an 85 percent ownership interest for Gorman King, Jr.

At December 31, 1995, the number of shares issued and outstanding remained unchanged at 260,000 shares and contributed capital equaled \$23,000 as a result of capital donations made by Gorman King, Jr., in 1995.

Dividends to Stockholders

The annual statements and the Board of Directors' minutes for the periods under examination indicate no dividends were paid to the stockholders of record.

Growth of the Company

The following exhibit reflects the growth of the Company over the five-year period under examination. Data with respect to the years 1991-1994 is compiled from home office copies of the filed Annual Statements. Data for the year 1995 reflects the results of this examination. The operational results from 1991-1994 are presented on a cash basis and in 1995 on an accrual basis.

Year	Admitted Assets	Total Liabilities	Net Worth	Net Premiums Written	Underwriting Deductions	Investment and Other Income	Net Income (Loss)
1991	\$107,271	\$149,528	\$(42,257)	\$566,061	\$572,624	\$ 6,746	\$ 183
1992	97,177	140,350	(43,173)	551,091	558,801	6,794	(916)
1993	110,998	118,684		637,269	615,802	21,706	43,173
1994	110,522	92,988	17,534	628,044	621,339	10,829	17,534
1995	65,510	75,478	(9,968)	621,684	603,679	27,900	45,905

MANAGEMENT AND CONTROL

Directors

The Bylaws specify that management of the Company's affairs, business, and property is to be vested in a Board of Directors. Prior to an April 1, 1994, amendment to the Bylaws, the Board was to include not less than 3 nor more than 11 people. The amendment changed the minimum number of directors from three to one. Each director holds office until the next annual meeting of shareholders and until a successor has been elected and qualified. A majority of the entire Board of Directors constitutes a quorum for the transaction of business.

Directors duly elected and serving the Company at December 31, 1995, were as follows:

Name and Residence	Term Expires	Occupation
Gorman King, Jr. Fargo, AND	1996	Lawyer

Officers

Officers are elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If the election of officers is not held at such meeting, the election is held as soon thereafter as convenient. Officers serving at December 31, 1995, were as follows:

<u>Name</u>	<u>Office</u>
Gorman King, Jr.	President
Gorman King, Jr.	Vice President
Gorman King, Jr.	Secretary-Treasurer

Committees

The Board of Directors may appoint committees to assist the Board. No committees were formed during the five-year period under review.

Corporate Records

The minutes of the meetings held by the membership and directors during the years under examination were reviewed for compliance with the Articles of Incorporation, Bylaws, and statutory requirements.

The following is a list of the differences noted with regard to the corporate records:

Bylaws

1. Article I is outdated since the principal office is in Fargo, not Bismarck.
2. The April 1, 1994, amendment made to Article III, Section 2, which changed the minimum number of required directors, was not filed with the North Dakota Insurance Department.
3. The Bylaws have not been amended to reflect the Company's 1995 name change to the ProviDent Company.

Membership

1. The Company did not hold an annual meeting in 1995 as required in Article II, Section 1 of the Bylaws.
2. The minutes of the Board of Directors and shareholders meetings were not consistently read and approved in a subsequent meeting.

Member's Meetings

During the period under examination, annual meetings of the membership were held on September 28, 1991; September 20, 1992; and April 1, 1994. An amendment to the Articles was adopted by the shareholders in 1995 to change the Company's name to the ProviDent Company.

Director's Meetings

During the period under examination, the Board of Directors held one regular meeting in each year of 1991, 1992, and 1994. During 1993, one special meeting of the board was held as well as an organizational meeting of the Board of Directors and shareholders. The board also called one special meeting in 1994 and two in 1995.

AFFILIATES

During 1995, Gorman King, Sr., was paid \$13,000 (plus reimbursement of expenses) for consulting services and \$14,851 for management services. Of the amount remitted for management services, \$7,177 was paid to Reserve Funds, Inc., a company owned by Gorman King, Sr.

FIDELITY BOND AND OTHER INSURANCE

N.D.C.C. § 26.1-17.1-18(1) requires a prepaid limited health service organization to maintain in force a fidelity bond in its own name on its officers and employees in an amount not less than \$50,000 or in any other amount prescribed by the Commissioner. On December 31, 1995, the Company did not carry a fidelity bond and, consequently, was not in compliance with N.D.C.C. § 26.1-17.1-18(1). It is recommended that the Company obtain a fidelity bond to meet the statutory requirement.

The Company does not carry insurance on its property or records.

INSURANCE PRODUCTS AND RELATED PRACTICES

Provider and Subscriber Contracts

The Company contracts with dentists to provide dental services to the subscribers of the Company's various individual and group plans. For each plan, the Company pays capitation to the dentist for services provided to the Plan's subscribers. The amount of capitation paid to providers is based on a fixed percentage of the premium received from the subscribers.

Subscriber contracts are classified by the Company as group contracts, automatic bank plan deductions for individuals, and annual contracts. Contract provisions for all plans require the subscriber to pay a copayment as listed on the benefits and coverage schedule. Subscribers and their dependents are initially required to remain on a plan program for a minimum of one year.

Territory and Agency System

The Company is authorized to transact business in the states of North Dakota, Minnesota, and Montana. Of gross premiums received by the Company in 1995, 93.4 percent of premiums were attributable to North Dakota, 6.4 percent to Minnesota, and 0.2 percent to Montana.

At December 31, 1995, the Company used seven licensed agents to market its plans.

Advertising and Sales Material

The Company markets one plan, ProviDent Choice, that is underwritten by Congress Life Insurance Company ("Congress Life"). In marketing this product, the Company has used a brochure developed by Congress Life containing a weak disclosure in regard to a proof of prior dental coverage prerequisite. The Insurance Department has requested the Company to change the language of the disclosure to clarify the prerequisite. The Company is not using the brochure pending the required language change.

Subscriber Complaints

The Company's complaint procedure states that a subscriber should initially bring any complaint to the attention of the treating dentist. If the complaint is not resolved to the subscriber's satisfaction, the subscriber should notify the Company. The Company asks the subscriber to complete a "Subscriber Dissatisfaction Report". Upon receipt of the report, the Company immediately contacts the treating dentist to solicit a response. The Company's policy is to provide a response to the subscriber's grievance within seven working days.

Quality Assessment and Utilization Review

To fulfill the application requirements for a Certificate of Authority under N.D.C.C. § 26.1-17.1-03, the Company had filed in 1993 a description of the quality assessment and utilization review procedures the Company intended to utilize in its operations. The Company has not substantively implemented these procedures. It is recommended that the Company follow all procedures described in its "Satisfaction Guaranteed" document or, in the alternative, submit a revised document for the Commissioner's approval pursuant to N.D.C.C. § 26.1-17.1-07(1).

ACCOUNTS AND RECORDS

The general books of the Company are maintained on an accrual basis and consist of a general ledger, income and disbursement journal, and a corporate record book. Other subsidiary records necessary for statistical data are also maintained.

Prior to 1995, a manual cash receipts journal, cash disbursements journal, general ledger, and such other statistical records needed for the operations of the Company and for the preparation of the annual statements were maintained on a cash basis. In 1995, the Company engaged the services of a local CPA firm to maintain the following accounting records for the Company:

- Computerized General Ledger
- Bank Reconciliation
- Annual Statement Compilations

A trial balance was prepared as of December 31, 1995, for the purpose of tracing it to the annual statement. The examiner did not find any differences between the trial balance and the 1995 Annual Statement.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, and Net Worth as of December 31, 1995, along with the supporting statements and reconciliation as listed below:

Statement of Assets, Liabilities, and Net Worth, December 31, 1995
Statement of Revenues, Expenses, and Net Income, Year 1995
Net Worth Account, Year 1995
Reconciliation of Net Worth, January 1, 1991, to December 31, 1995

ProviDent Company
Statement of Assets, Liabilities, and Net Worth
as of December 31, 1995

	Ledger	Non-Ledger	Assets Not	Net
Admitted				
<u>Assets</u>	<u>Assets</u>	<u>Assets</u>	<u>Admitted</u>	<u> </u>
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 56,889			\$ 56,889
Premiums Receivable	3,663		\$ 307	3,356
Notes Receivable-NDD	<u>3,000</u>		<u>3,000</u>	<u>0</u>
Total Current Assets	<u>\$ 63,552</u>		<u>\$ 3,307</u>	<u>\$ 60,245</u>
Other Assets:				
Bonds	\$ 50,520		\$ 50,520	\$ 0
Computer Equipment	<u>10,682</u>		<u>5,417</u>	<u>5,265</u>
Total Other Assets	<u>\$ 61,202</u>		<u>\$ 55,937</u>	<u>\$ 5,265</u>
TOTAL ASSETS	<u><u>\$124,754</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 59,244</u></u>	<u><u>\$ 65,510</u></u>
LIABILITIES				
Accounts Payable		\$ 13,984		
Unearned Premiums		45,000		
Premium Taxes Payable		12,565		
Income Taxes Payable		2,668		
Payroll Taxes Payable		<u>1,261</u>		
TOTAL LIABILITIES			\$ 75,478	
NET WORTH				
Common Stock		\$ 0		
Contributed Capital		23,000		
Retained Earnings		<u>(32,968)</u>		
TOTAL NET WORTH			<u>(9,968)</u>	
TOTAL LIABILITIES AND NET WORTH				<u><u>\$ 65,510</u></u>

ProviDent Company
Statement of Revenues, Expenses, and Net Income
For the Year Ending December 31, 1995

REVENUES

Premium	\$621,684	
NOVA Revenue	26,408	
Fees	<u>1,492</u>	
Total Revenue		<u>\$649,584</u>

EXPENSES

Capitation	\$400,114	
Compensation	46,361	
Interest Expense	846	
Occupancy, Depreciation, and Amortization	5,970	
Marketing	35,201	
Aggregate Write-Ins/Other Administrative Expenses	<u>114,015</u>	
Total Expenses		\$602,507
Provision for Federal Income Taxes		<u>1,172</u>
Net Income (Loss)		<u><u>\$ 45,905</u></u>

ProviDent Company
Net Worth Account
For the Year Ending December 31, 1995

Net Worth Beginning of Year		\$ 17,534
Increase (Decrease) in Contributed Capital		23,000
Increase (Decrease) in Retained Earnings:		
Net Income	\$ 45,905	
Change in Nonadmitted Assets	(86,012)	
Aggregate Write-Ins for Adjustments	<u>(10,395)</u>	<u>(50,502)</u>
Net Worth, December 31, 1995		<u>\$ (9,968)</u>

ProviDent Company
Reconciliation of Net Worth
January 1, 1991, Through December 31, 1995

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Net Worth Beginning of Year	\$(42,440)	\$(42,257)	\$(43,173)	\$ 0	\$ 17,534
Increase (Decrease) in Contributed Capital					23,000
Increase (Decrease) in Retained Earnings:					
Net Income	183	(916)	43,173	17,534	45,905
Change in Nonadmitted Assets					(86,012)
Aggregate Write-Ins for Adjustments					<u>(10,395)</u>
Net Worth End of Year	<u>\$(42,257)</u>	<u>\$(43,173)</u>	<u>\$ 0</u>	<u>\$ 17,534</u>	<u>\$ (9,968)</u>

NOTE: Data shown for 1991-1994 was extracted from Company's annual statements.

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 1995, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

ASSETS

Cash and Cash Equivalents

\$56,889

Cash consisted of the following items and amounts at December 31, 1995:

Trust Checking Account	\$50,803.68
Operating Checking Account	<u>6,085.43</u>
Total	<u>\$56,889.11</u>

The Examiner prepared a bank reconciliation of both checking accounts and found the following differences in the trust checking account:

1. A deposit made at year-end was not recorded on the general ledger.
2. A deposit was understated on the general ledger.
3. A check written in July 1995 was deducted twice on the general ledger.

The above differences had a net effect of increasing the balance in the trust account by \$404.68.

When reconciling the operating checking account, the examiner found three checks written before December 31, 1995, but not recorded on the general ledger. The net effect of omitting those checks is a decrease in the account by \$1,348.57.

The Company should record all deposits and checks written before year-end in the general ledger before year-end closing. The decrease in this caption in the amount of \$944 is reflected in the changes to "Net Worth" of this report.

The Company's previous name (Denticare) is the name shown on both checking accounts and checks. The examiner recommends that the Company use the name ProviDent Company on the checks and checking accounts.

Premiums Receivable**\$3,356**

The captioned amount is \$307 less than the amount reflected in the 1995 Annual Statement. The Company included a \$142.78 receivable from Gorman King, Jr., in premiums receivable. The receivable from Gorman King, Jr., is misclassified and is a nonadmitted asset. The Company also included \$164 of premiums that are 90 days past due. Premium receivables that are over 90 days past due are nonadmitted.

The decrease in this caption is reflected in the changes to "Net Worth" of this report. It is recommended that for future periods, the Company report premium receivables that are over 90 days past due as nonadmitted assets.

Notes Receivable**\$0**

The captioned amount is \$3,000 less than the amount reflected in the 1995 Annual Statement. The Company has a \$3,000 note receivable from New Direction Dental that is not secured by collateral. All notes receivable, except those taken from an insured for premiums or those fully secured by collateral, are classified as nonadmitted.

It is recommended that in future periods the Company treat any notes receivable which are not secured by collateral as a nonadmitted asset. The decrease in this caption is reflected in the changes to "Net Worth" of this report.

Bonds**\$0**

The captioned amount is \$50,520 less than the amount reflected in the 1995 Annual Statement. The following schedule presents the description, market value, actual cost, par value, and nonadmitted value of the bonds listed by the Company on the 1995 Annual Statement:

Classification	Market Value	Actual Cost	Par Value	Nonadmitted Value
Bismarck AND Water and Sewer - Utility Rev Bond	\$29,765	\$29,765	\$30,000	\$29,765
Jamestown AND Park District - Golf Course Bond	20,755	20,755	20,000	20,755
TOTALS	\$50,520	\$50,520	\$50,000	\$50,520

On December 31, 1995, Gorman King, Jr., donated to the Company the bonds listed above; however, the bonds were held on deposit with John G. Kinnard & Co. in Gorman King, Jr.'s account instead of a Company account. The bonds were transferred to a Company account on August 13, 1996 (see Subsequent Events, page 20, of this report). The bonds were nonadmitted because they were not held in a separate account under

the Company's name. It is recommended that all securities be legally transferred to the Company in the future and placed in a separate account under the Company's name in order to be deemed admitted. The decrease in this caption is reflected in the changes to "Net Worth" of this report.

Computer Equipment

\$5,265

The captioned amount is \$5,417 less than the amount reflected in the 1995 Annual Statement. The Company included \$8,334 EDP application software as an admitted asset. Application software is nonadmitted and computer hardware is admitted. The examiner admitted a \$2,917 laptop computer that the Company reported as a nonadmitted asset. The decrease in this caption is reflected in the changes to "Net Worth" of this report.

LIABILITIES

Accounts Payable

\$13,984

The captioned amount is \$4,546 more than the amount reflected in the 1995 Annual Statement. The liability for accounts payable at December 31, 1995, as determined by this examination consisted of the following items and amounts:

Telephone	\$ 1,456
Accounting Fees	4,525
Attorney Fees	608
Printing and Postage	1,983
Computer	1,000
Dues and Miscellaneous	<u>4,412</u>
Total	<u><u>\$13,984</u></u>

Invoices and other evidence of indebtedness were reviewed for expenses incurred prior to year-end but paid subsequent to year-end. The examiner discovered that the Company was accruing certain expenses which were incurred in 1996 and excluding certain expenses which were incurred in 1995. The increase is reflected in the changes to "Net Worth" of this report.

Unearned Premium Reserve**\$45,000**

The captioned amount is \$4,798 less than the amount reflected in the 1995 Annual Statement. The Company used an erroneous method in calculating the unearned premium reserve which considered only premiums collected in the last month of the year. The unearned premium reserve has been calculated by the examiner utilizing the monthly pro rata method with consideration of the following factors:

1. NOVA premiums received in 1995 and remitted to Haney Group Services, a third-party administrator, are excluded from the calculation.
2. Premiums from new subscriber policies which are noncancellable in the first year are excluded from the calculation.
3. Premiums which are paid on an annual basis are included in the calculation.
4. Premiums which are paid on a monthly basis are included in the calculation when the premium period extends beyond December 31.

The examiner recommends that the Company calculate its unearned premium reserve by using the monthly pro rata method and, in performing the calculation, recognize premiums paid throughout the year, but disregard premiums which are not subject to return or refund provisions. The decrease is reflected in the changes to "Net Worth" of this report.

Premium Taxes Payable**\$12,565**

The captioned amount is \$10,331 more than the amount reflected in the 1995 Annual Statement. The examiner expanded the 1991-95 review of premium tax returns to include the year 1990 because initial findings indicated a reconciled premium tax return was not filed in 1991. The examiner increased the liability because of the following errors:

1. The Company was not consistently including administration fees in the gross premiums amount reported on the tax return. N.D.C.C. § 26.1-03-17 states that such fees are taxable.
2. The Company used an incorrect ad valorem credit on the premium tax returns for the years 1990 and 1992 through 1995. In 1995, the Company claimed an ad valorem credit for home office footage it was not paying rent on. The credit is limited to property taxes allocable to space the Company rents and occupies.
3. In 1991, the Company did not file a reconciled premium tax return. The examiner calculated premium taxes payable in 1991 to be \$7,712.

Although the Company states it received Minnesota, Montana, and North Dakota premiums in 1991, the Company could not provide a breakdown of premiums between the states. Therefore, the examiner used the total premiums reported on the annual statement to calculate North Dakota taxable premiums.

The increase in premium taxes payable is reflected in the changes to "Net Worth" of this report. The examiner recommends the following:

1. Administration fees should be included in the gross premium amount reported on the tax return.
2. The ad valorem credit should be limited to the proportionate share of home office space the Company rents and occupies.

Income Taxes Payable

\$2,668

The captioned amount is \$628 less than the amount reflected in the 1995 Annual Statement. The liability for income taxes payable consists of the following:

Federal Income Taxes	\$2,595
Minnesota Income Taxes	<u>73</u>
Total	<u>\$2,668</u>

A liability for North Dakota corporate income tax was erroneously included by the Company in the payable reported on the annual statement. The Company is exempt from paying North Dakota income taxes under the provisions of N.D.C.C. § 57-38-09.1(3) which exempts "insurance companies doing business in the state and paying a tax upon the gross amount of premiums received in the state." The Company intends to file amended North Dakota income tax returns to support a request for refund of taxes previously paid.

The decrease in income taxes payable is reflected in the changes to "Net Worth" of this report.

Capital Stock and Contributed Capital

\$23,000

On its 1995 Annual Statement, the Company overstated capital stock by \$1,000 and understated contributed capital by the same amount due to a misclassification of donated capital. A 1995 contribution of \$1,000 by Gorman King, Jr., should have been recorded as an entry to the contributed capital account rather than the capital stock account since the payment was not made in conjunction with the issuance of additional shares of stock. The reclassification of the payment has no impact on the "Net Worth" calculated in this report.

Net Worth**\$(9,968)**

Net worth was determined by this examination to be in the amount of \$(9,968) or \$69,639 less than the amount reported by the Company. As of December 31, 1995, the Company does not meet the requirement to maintain capital and surplus in the amount of \$25,000. It is recommended that the Company increase its net worth to comply with N.D.C.C. § 26.1-17.1-06. Adjustments to net worth are shown in the following schedule:

Caption	Company	Examination	Increase or (Decrease)
Ledger Assets:			
Cash and Cash Equivalents	\$57,833	\$56,889	\$ (944)
Nonadmitted Assets:			
Premiums Receivable		307	(307)
Notes Receivable-New Direction Dental		3,000	(3,000)
Bonds		50,520	(50,520)
Computer Equipment		5,417	(5,417)
Liabilities:			
Accounts Payable	9,438	13,984	(4,546)
Unearned Premiums	49,798	45,000	4,798
Premium Taxes Payable	2,234	12,565	(10,331)
Income Tax Payable	3,296	2,668	628
Change in Net Worth			<u>\$(69,639)</u>

CONCLUSION

The financial condition of ProviDent Company, Fargo, North Dakota, as determined by this examination as of December 31, 1995, is summarized as follows:

TOTAL ADMITTED ASSETS \$65,510

Total Liabilities \$75,478
Surplus to Policyholders (9,968)

TOTAL LIABILITIES AND SURPLUS \$65,510

The examiner expresses her appreciation for the courteous cooperation extended her during the course of this examination.

Respectfully submitted,

Diane Shervey, CPA
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

- Page 3 During the five-year period under review, the Company's admitted assets have decreased by \$41,761 (39 percent), and its total liabilities have decreased by \$74,050 (50 percent).
- Pages 4-5 It is recommended that the Company amend the Bylaws to reflect the Company's 1995 name change to the ProviDent Company and also amend Article I of the Bylaws to change the stated location of the principal office to Fargo.
- It is recommended that all amendments to the Bylaws be filed with the Insurance Department. It is recommended that all Board of Directors and shareholders minutes be read and approved in a subsequent meeting.
- Page 6 It is recommended that the Company obtain a fidelity bond to meet the requirements of N.D.C.C. § 26.1-17.1-18(1).
- Page 7 It is recommended that the Company follow its written quality assessment and utilization review procedures or, in the alternative, submit a revised document for the Commissioner's approval pursuant to N.D.C.C. § 26.1-17.1-07(1).
- Page 12 It is recommended that the Company record all deposits and checks written before year-end in the general ledger before year-end closing and that the name ProviDent Company be used on the Company's checks and checking account.
- Page 13 It is recommended that the Company report premium receivables that are over 90 days past due as nonadmitted assets.
- It is recommended that the Company treat any notes receivable which are not secured by collateral as a nonadmitted asset.
- Page 14 It is recommended that securities be legally transferred to the Company and placed in a separate account under the Company's name in order to be deemed admitted.
- It is recommended that the Company properly report computer application software as a nonadmitted asset.
- It is recommended that the Company report as accounts payable only expenses incurred in a current year which are not paid before the year-end closing.
- Page 15 It is recommended that the Company calculate its unearned premium reserve by using the monthly pro rata method and, in performing the

calculation, recognize premiums paid throughout the year, but disregard premiums which are not subject to return or refund provisions.

Page 16 It is recommended when preparing the premium tax returns that administration fees be included in reported gross premiums.

The ad valorem credit should be limited to the proportionate share of space the Company rents and occupies.

Page 17 It is recommended that the Company increase its net worth to comply with N.D.C.C. § 26.1-17.1-06.

SUBSEQUENT EVENTS

The Company purchased a fidelity bond with a limit of \$50,000 coverage effective June 19, 1995. The amount of the bond meets the requirements in N.D.C.C. § 26.1-17.1-18(1).

As indicated by a confirmation received from John G. Kinnard & Co., Gorman King, Jr., transferred the following bonds to ProviDent Company on August 13, 1996:

Classification	Par Value	Cost/Market
Jamestown ND Park District - Golf Course Bond 5.60% Due 9/1/2004	\$20,000	\$20,517
Bismarck ND Water & Sewer - Utility Revenue Bond 4.10% Due 5/1/99	\$30,000	\$29,677

Based on the cost of the bonds as indicated above, the effect of the bond transfer is to increase both the Company's Admitted Assets and Surplus to Policyholders by the amount of \$50,194 as of August 13, 1996.